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The Impact of Family Assets and Debt on College Graduation

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Policy and Research Background

There are racial/ethnic disparities in college graduation rates. Approximately 40% of Black students and 50% of Hispanic students graduate from college within 6 years; 62% of White students do so.[1]

College costs have risen sharply. Between 2000 and 2010, the cost of public universities rose 42% and that of private universities rose 31%.[2]

The recession negatively affected minority net worth. Although wealth declined substantially among all households during the recession, median net worth fell from 2005 to 2009 by 66% among Hispanic families and by 53% among Black families but by only 16% among White families.[3]

Household debt has increased. In minority households, total household debt has grown dramatically since the start of the economic recession.[4] Nearly one-third of all Black and Hispanic families report zero or negative wealth.[3] The gap between the wealth of White families and that of Black and Hispanic counterparts has nearly doubled in the past decade.

Family Finances and College Graduation

We examine the extent to which parents' financial assets and debt influence their children's chances of graduating from college. We devote special attention to racial/ethnic gaps in rates of college graduation. Both assets and debt are measured during the time of college enrollment. Selected results follow.

Do assets and debt matter for college graduation? In estimates from models that control for a wide range of student and parental characteristics,[5] family assets have a similar, positive impact on college graduation for White and Black students, but debt has a stronger negative impact for Black students than for White counterparts.

What about income? Family income is positively related to college completion; but after assets and debt are included in the analysis, income no longer influences chances of graduation.

What are the roles of assets and debt in reducing racial/ethnic gaps in college graduation? Results indicate that family assets and debt explain a small portion of racial/ethnic gaps in college graduation. Several other factors influence college graduation, and their effects differ by race/ethnicity. For example, having an average letter grade of A during the last year of high school is positively related to chances of graduation among White students. Among White and Hispanic students, the mother's level of education is positively related to her son or daughter's chances of college graduation.

Do economic resources matter at different points in time? The findings from this study are similar to results from previous research that examines the effects of parents' economic resources on their children during early childhood and early adolescence.[6] This study finds that family assets and debt may have both long- and short-term impacts on the chances of college graduation. Furthermore, racial/ethnic gaps in college education seem to be influenced more by long-term accumulations of assets and debt than by short-term accumulations of them.

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[a]This Fact Sheet is based on Zhan, M., & Lanesskog, D. (2013), *The impact of family assets and debt on college graduation* (CSD Working Paper No. 13-36). St. Louis, MO: Washington University, Center for Social Development.

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Conclusions and Implications

- **Consistent with a number of previous studies, this research suggests that family assets and debt might be more influential than income in determining whether youth graduate from college.**
- **Resource constraints around the time of college entry—both lack of sufficient assets and borrowing limitations—are important barriers to college graduation. Student readiness and mothers' education are also important factors.**
- **Financial preparation may reduce racial/ethnic gaps in college completion. Thus, it may be constructive for public policy to facilitate the accumulation of savings for children's postsecondary education.**
- **It might be beneficial to build college savings as a way to support child development in early childhood. Child Development Accounts, incentivized accounts that encourage households to save for children's higher education, have great potential to provide a vehicle for such support.[7]**
- **Family debt is found to decrease the probability that youth, particularly Black youth, will graduate from college. Thus, it seems important for public policy to strengthen regulation of fringe financial services and to increase access to quality credit in mainstream financial institutions, especially access among minority households.**

End Notes

1. College Board, Advocacy and Policy Center. (2012). *The college completion agenda*. New York, NY: Author.
2. U.S. Department of Education, National Center for Education Statistics. (2012). Enrollment (Fast Facts).
3. Kochhar, R., Fry, R., & Taylor, P. (2011). *Twenty-to-one: Wealth gaps rise to record highs between Whites, Blacks, Hispanics* (Social & Demographic Trends Report). Washington, DC: Pew Research Center.
4. Dynan, K. E. (2009). Changing household financial opportunities and economic security. *Journal of Economic Perspectives, 23*(4), 49–68. doi:10.1257/jep.23.4.49.
5. Such factors include a student's age, gender, race/ethnicity, academic performance in high school, whether the youth enrolled part-time or full-time in college, whether he or she was married during college enrollment, and whether he or she had children during enrollment. Parental income and the mother's education also are included.
6. See, e.g., Zhan, M., & Sherraden, M. (2011a). Assets and liabilities, educational expectations, and children's college degree attainment. *Children and Youth Services Review, 33*(6), 846–854. doi:10.1016/j.childyouth.2010.12.006. See also Zhan, M., & Sherraden, M. (2011b). Assets and liabilities, race/ethnicity, and children's college education. *Children and Youth Services Review, 33*(11), 2168–2175. doi:10.1016/j.childyouth.2011.06.024.
7. Beverly, S. G., Elliott, W., & Sherraden, M. (2013). *Accounts, assets, expectations, and achievements: How Child Development Accounts may increase college success* (CSD Working Paper No. 13-27). St. Louis, MO: Washington University, Center for Social Development.

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